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PASS TO USTDA KATE MALONEY

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SUBJECT: NICARAGUA: WEAK INFRASTRUCTURE HAMPERS TRADE

SENSITIVE BUT UNCLASSIFIED. PLEASE PROTECT ACCORDINGLY.

¶1. (SBU) Summary. A 2006 World Bank study characterized Nicaragua's infrastructure as the least developed in Central America. Nicaragua,s poor national road network compounds the challenge of bringing products to market and presents "the greatest obstacles to export led economic growth." At times, poor road conditions halt trade altogether and jeopardize tens of millions of dollars of commerce. Sea ports, in dire need of investment, have reached maximum capacity but by law cannot raise funds or enter into public-private partnerships such as concessions or joint ventures. International air cargo is also reaching capacity, limited by the ability of the airport to handle more shipments. The Ministry of Transportation and Infrastructure (MTI) has consistently shown itself incapable of managing the sector in a way that supports development. Newly-inaugurated President Daniel Ortega has focused on the need to stimulate large infrastructure projects to create jobs and alleviate poverty. Ortega's seeming unwillingness to tackle ministry corruption and inefficiency in this sector early on is not completely unexpected, but belies Sandinista criticism of the Bolanos government in this regard. It is not clear whether Ortega is interested in strengthening the ministry or simply finding a way around it. End Summary.

Introduction

¶2. (U) A 2006 World Bank study depicted Nicaragua as having the least developed transportation infrastructure in Central America. Sea ports are inadequate for the volume of trade that Nicaragua is beginning to generate. The fragile road system, frequently pounded by torrential rains and mudslides, is largely unpaved. The railroad system closed down fourteen years ago) reportedly selling its ties, rails, and rolling stock to the Cubans. International air transport to and from Managua has experienced steady growth, but domestic air transport shows no signs of graduating from its perennial infancy. In general, the report found that the sad state the nation,s transportation infrastructure is hardly conducive to taking advantage of CAFTA-DR and integrating with regional markets.

Roads: Unpaved and in Disrepair

¶3. (U) As in many countries, the vast majority of commercial export shipping begins the journey overland, but the lack of adequate port facilities in Nicaragua means that almost 40% of all goods headed for the United States and other major markets must first travel an additional leg by land to neighboring countries where port services are better.

¶4. (U) Nicaragua,s poor national road network only compounds

the challenge of getting product to market. The country's road network is comprised of 9,700 miles, yielding a road density per square kilometer that compares to other Central American countries. In Nicaragua, however, only 1,455 miles -- or 15% -- are paved - half the Central American average of 30%. Moreover, more than 1,164 miles of the roads that are paved are in "poor or deteriorated8 condition. According to the Ministry of Transportation and Infrastructure (MTI), only 291 miles are in "good or excellent8 condition. It comes as no surprise, then, that the World Bank study concluded that a well developed and maintained road network is the &greatest obstacle to maximizing export led economic growth."

¶5. (U) The problem manifests itself throughout the country, but perhaps nowhere more obviously than in the agriculturally rich departments of Leon and Chinandega. Though close to the Port of Corinto and outlets in neighboring Honduras and El Salvador, the roads in these departments are in terrible condition, hampering the shipment of perishable product to market. Of the 65 miles of paved roads in each Department, only 20-25 miles are classified as &good or excellent.8 For this reason, the need to improve roads was a central consideration in the decision of the Millennium Challenge Corporation to channel $92.8 toward road reconstruction in the region.

¶6. Sometimes the poor condition of the road network halts trade altogether. In November, impassable roads in the departments of Matagalpa and Jinotega, key coffee-producing regions, threatened to keep 20% of Nicaraguan coffee exports from reaching the United States, jeopardizing the value of more than $30 million in exports. Eduardo Rizo, president of the Coffee Producers of Jinotega, publicly explained that each day,s delay caused coffee beans to degrade, resulting in lower prices. "Our coffee is practically trapped here," Rizo declared during a demonstration by the Nicaraguan Union of Coffee Producers in Managua. Eventually, funds for emergency road repair were released, but coffee growers complained that the repairs were superficial and would not last through the next rainy season. Matagalpa and Jinotega are responsible for producing 75% of the nation,s coffee crop.

Ports: Limited Capacity

¶7. (U) The country,s largest port, Puerto Corinto, serves only the west coast of Nicaragua, moving 40,000 TEUs (twenty-foot equivalent units) in 2006. Many ships departing Corinto will stop at Puerto Acajutal in El Salvador to transship rather than continue north along the Pacific Coast. Indeed, aggressive plans to develop Puerto Acajutal have caught Nicaraguans flat footed. If Puerto Corinto does not expand its facilities and offer better services, more customers may choose to ship overland to the El Salvadorean port, bypassing Corinto altogether. The national ports company, Empresa Portuaria Nacional (EPN), has been so far unable to respond to this competitive pressure. EPN already carries considerable debt and, by law, is prevented from raising funds in the financial markets, entering into joint ventures with private entities, developing terminals through concessions, or undertaking other forms of public-private partnership.

¶8. (U) For access to the east coast of the United States and all points east, Nicaragua is dependent upon Puerto Cortez in Honduras and Puerto Limon in Costa Rica -- thirty eight per cent of all Nicaraguan sea trade passes through these outlets. In recent years, delays at the Port of Cortez and organized theft have raised the risk of shipping through Honduras or Costa Rica for Nicaraguan exporters. The only alternative is to ship goods overland to the small inland Nicaraguan Port of El Rama, located 18 miles inland on the Escondido River. Cargo floats from Rama to the Atlantic coast, where it can be transferred to larger vessels that may well transship cargo in Puerto Cortez.

Air: Managua Centered

¶9. (U) International air cargo is a popular choice for exportors of highly perishable goods such as okra and fish. Exports via air have steadily increased at a rate of 5% a year since 2000, to 20.5 million pounds in 2006. Limited ground storage for cargo and limited cargo processing facilies at Nicaragua's International Airport have frustrated air cargo carriers, however, who complain that the airport grants priority to passengers. Juan Bosco Ortega, UPS General Manager in Nicaragua, believes that, without major renovations and expansion of the airport, the air cargo industry has reached its maximum capacity.

¶10. (U) In contrast, domestic airlines cut most cargo flights in 2006 to save on fuel costs, reducing internal air cargo trade to just 500,000 pounds, a 50% drop from 2005. Neither of the two domestic airlines, La Costena and Atlantica, plan to increase cargo flights any time soon, citing financial problems and a limited fleet. The domestic air market has struggled since the late 1990's, forcing the departure of two airline companies, Aerosegovia and NICA. La Costena and Atlantica, newcomers to Nicaragua, are already showing signs of trouble with frequent delays or cancellations caused by mechanical failure in an aging turbo prop fleet.

Ministry Performance: Consistency Is Not Always Good
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¶11. (SBU) Over the past decade, the Ministry of Transport and Infrastructure (MTI) has consistently shown itself incapable of managing the sector in a way that supports development, but 2006 may have been a new low. The year ended with a flurry of corruption allegations, resignations, and investigations over missing money, mismanagement, and fraudulent reporting. Under a cloud of corruption, Ricardo Vega Jackson resigned his post as minister on September 19. He promptly accused his predecessor, Pedro Solorzano Castillo (then an advisor to President Bolanos), as the original source of the corruption in the ministry. In turn, Solorzano Castillo blamed former President and convicted felon Arnoldo Aleman of forging enduring corrupt relationships with road construction companies that routinely pocketed MTI money before fulfilling their contracts. These accusations and counter-accusations caused the Accountant General to launch an investigation into official misconduct, and the National Assembly to impose a ministry-wide spending freeze, leading to the immediate withdrawal of tenders on a number of long awaited road construction projects. The result was complete paralysis of an already dysfunctional ministry.

¶12. (SBU) Bickering and mismanagement seems to plague the ministry. In October 2006, an internal MTI investigation revealed that the ministry had over reported the number of roads constructed or rehabilitated between 2002 and 2005. MTI had claimed that it had built or rehabilitated 470 miles of road, while the actual figure was closer to 332 miles. Former Director of Transportation Manuel Salgado (2003-2006) later claimed that he was ordered to produce these false reports. In November, MTI,s road maintenance division (FOMAV) reported that 75 miles of these newly-constructed roads were "so badly constructed and designed" that they would have to be rebuilt. Meanwhile, FOMAV,s ability to maintain even well constructed roads has been called into question by the World Bank's study. The study concluded that lack of capacity at FOMAV "place(d) the major investments in the transportation sector of the past 5 years at risk, especially in rural areas."

Enter Ortega

¶13. (SBU) During the election campaign and weeks that followed, President Daniel Ortega has publicly stressed the need to stimulate large infrastructure projects to create jobs for Nicaragua and alleviate poverty. During an October pre-election meeting with fregn investors in the tourism sector, Ortega promised to support the construction of a

Pacific Coast Highway to help develop the industry, after a ministry-funded study concluded, surprisingly, that there was no economic justification for doing so. In November, Ortega praised the proposal to build an $18 billion interoceanic canal, arguing that the megaproject would generate numerous jobs for the country and foster economic development. In December, Ortega and Venezuelan President Hugo Chavez announced plans for the Venezuelan National Oil Company to build a multi-million dollar transisthmus oil pipeline in Nicaragua. Immediately after his inauguration, Ortega announced agreements with Venezuela and Iran to build roads and improve ports.

Comment

¶14. (SBU) Ortega has not publicly discussed MTI nor its problems. Instead, he created a new position, that of Director of Public Projects, to function outside of MTI. Reportedly Manuel Coronel Kraus, Ortega's former Director of Public Projects during the 1980s, will take the job. Coronel has represented Ortega at a number of infrastructure-related meetings, telling investors that Ortega "likes big projects." Coronel is noted for his grandiose ideas during the 1980s; some industry insiders have even characterized him as "eccentric and kooky." Ortega's seeming early unwillingness to tackle ministry corruption and inefficency in this sector is telling, particularly given Sandinista criticism of the Bolanos government in this regard. At this juncture, we are not sure whether Ortega is interested in strengthening the ministry or simply finding a way around it. End Comment.
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